

**OPENING STATEMENT OF HON. GEORGE P. SHULTZ,
FORMER SECRETARY OF STATE AND
FORMER SECRETARY OF THE TREASURY**

Mr. Shultz: Thank you, Mr. Chairman, Senator Biden, Senator Lugar. It is a pleasure to be back. I have not been here in well over a decade, and I spent so much time here it almost feels like homecoming, so I am honored to respond to your invitation.

You asked me to focus on the IMF, which I will do. I have three points of criticism, each of which I will illustrate with an example, and I have eight suggestions about what should be done, or what should be kept in mind as you consider the international economic scene.

My principal points can be stated as follows. The IMF encourages bail-out expectations, and thereby weakens the due diligence that is critical to the healthy functioning of the international economy. I think that is a very important point. Basically it started with Mexico in the mid-nineties, when the Treasury and the IMF together put together a package of over \$40 billion package -- to meet the Mexican crisis. I might add after putting it to the Congress and not getting its way in Congress.

What was done with that money? Immediately, the short-term loans that had been made to the Mexican Government by mostly U.S. investors were paid off. Those people got high rates of interest on risky short-term money. The Mexican Government was not able to pay it off or roll it over, and so they got bailed out, literally.

The Mexican Government then did the same thing with its own banks, so it was a gigantic bail-out. The financial people made out fine. The money did get paid back, but the bail-out happened, and made a big impact.

I might just say later on, after the Russian default, a banker friend of mine said (once you are in office you are held responsible for whatever happens) to me, after you bailed out investors in Mexico because Mexico was your neighbor, I was entitled to believe that you would bail me out in Russia, because Russia has all those nuclear weapons. So do not say that the bail-out mentality does not spread. It does. It is a big problem.

So that is my first point, and I think it is a very important one. I was told I had 10 minutes, so I am rushing along here.

My second point is that the IMF has, almost as a matter of logical development, developed programs that are increasingly intrusive into the economic policies of the countries where it is involved, and I think it is almost axiomatic that the more intrusive you are on economic policies, the more involved you get in the politics of those countries.

The evidence is that the IMF's economic programs are often wrong, showing that their competence in economics can be questioned, but that is where their presumed competence lies. But when they go around the world ministering to the politics of countries, they do not know what they are doing. Let us take the example of Indonesia, about which Secretary Summers spoke.

In the case of Indonesia, we had an authoritarian Government where there was a great deal of favoritism of President Suharto's family and his cronies, so you had a lot of corrupt practice there. You also did have, however, over a 20-year period, they also had something like a 7-percent sustained real growth rate, and the fruits of that were widely disbursed. The income per capita in Indonesia rose very, very rapidly. Never mind legislating great standards. You have to look at what happened to actual real incomes. They, the people of Indonesia, did very well.

Also, a tradition of religious tolerance was fostered. This is the biggest Muslim country in the world, 90 percent Muslim, and they had a tradition of tolerance of other religions, and they were rather proud of it. They had a small but very important ethnic Chinese community that brought lots of money to Indonesia.

But they were part of the Asian crisis, so the IMF and the Treasury moved in, and one of their first acts was to call for the closing of 16 banks. I do not know how you could fail to foresee that, when you do that, you are going to cause a crisis in the banking system and runs on banks. It is as simple as A, B, C. I do not want to say that the IMF deliberately set out to destabilize Indonesia, but it is hard not to come to that conclusion.

Lots of things are wrong in Indonesia, but also lots were right. The intrusiveness of the IMF programs, with their big, thick documents, telling them in great detail about how they should manage their policy, required things that were impossible, and were part of what I think was a great destabilization there.

I have heard people from the IMF say, well, we helped get rid of Suharto. I do not think that is a legitimate function of the IMF. I do think the management of moving countries from autocratic regimes to democratic ones is very tricky business. You remember, Mr. Chairman, in the eighties

we had quite a few: Argentina, Brazil, Chile, South Korea, the Philippines, and Taiwan. And we had lots of discussions in this committee about it.

On the whole those transitions came about all right, but you have got to go from something to something. Otherwise, look what has happened in Indonesia: Income per capita cut in half, poverty widespread, religious intolerance on the rise, fights between Muslims and Christians, ethnic Chinese driven out. I am told at least \$100 billion of ethnic Chinese money is parked outside Indonesia right now. If you want to do something about the Indonesian economy, you should think to yourself, how do I get the Chinese back? That is the big problem.

But at any rate, I think this illustrates the difficulty when the IMF finds itself enmeshed in the politics of a country and does not know what it is doing.

My third problem has to do with the IMF's loose charter, and the very large amounts of money that can be used at the discretion of the U.S. President and his G-7 counterparts. It is a very large amount of money now. It is hard to estimate exactly, but it is certainly on the order of \$200 billion.

As we have seen by the pattern of what the IMF does, there is virtually no limit on how the money can be used. And that is a temptation to a U.S. President that is very hard to resist.

Example: Russia. In the case of Russia, I think a misconceived policy was implemented, but anyway it had as its foundation the idea that we would provide large amounts of money, and the Russians would reform and become democratic and become an economically open country. So these funds were provided with the hope and expectation that that would happen. Conditions were laid down, and so on.

It is tempting to any country to take the money, because it is like a gift in the sense that the interest rates charged are way below any reasonable market rate of interest. It is aid, that's what it is. That is why they take it. The IMF is the only consultant in the world that pays you to take their advice. Most consultants have to meet a market test, and you have to think their advice is good enough so you will pay for it. In the case of the IMF, it is the reverse.

At any rate, lots of money was poured into Russia, and I think misguided. In the meantime, the Russians were taking money out. And I do not have any personal way of verifying this, but I have seen very credible estimates, that between \$150 and \$350 billion were taken out of Russia. That is

Russian money out of Russia. So when they are taking it out and we are putting it in, that must tell you something.

Some very bad policies were followed, and of course when the money goes to general budget support, it supports whatever the Government is doing, including the war in Chechnya. There is no way around that.

It also, in a more subtle way, it seems to me, tends to work on you psychologically. You have made these loans to create some result, and so you wish the result were there, and you allow yourself to think, well, it really is right around the corner. And you have your hopes pinned on some individual like Mr. Yeltsin so you tend to overlook things, and you tend to take his line. And I think in the process you distort your view of the reality of the country you are dealing with.

In that connection I would like to read a couple of things to you. Here is a description of Russia today. I am reading this.

A pluralist political system and civil society, competing in the world markets and plugged into the Internet. Does that bear any resemblance to the Russia that you --

Senator Biden: Whose description is that, Mr. Secretary?

Mr. Shultz: The President of the United States, writing in *Time Magazine*, January 1, 2000, just recently.

Now, here is the description of Chechnya. It says, we have a profound disagreement on the treatment of refugees. That is all, the treatment of refugees. He says that we understand that they have to "liberate Grozny" -- that is the way the Russian Government puts it -- and talks about this being a model for how to deal with other problems involving terrorists.

I am reading this. This is from *Time Magazine*, and I think this is what happens to you when you get so involved in another country's operations and you put so much money and so much of your own credibility on the line in favor of some results that are not happening.

I do not think that this is only because of the money that was there, but it helped. I call it the honey pot problem. Because when you have a big honey pot of money that can be used for anything, it is an invitation to a President to say, well, all right, here is a problem. I will get together with my friends in other countries and we will use that money for this purpose, and I think the resulting profligacy with IMF money has had a bad result, and is unfortunate.

So those are three examples. I could give a lot of other examples, but those are three that I want to call your attention to. The enormous amount of money being used to bail out lenders creates a mentality in the international lending community that in one way or another they are likely to get bailed out. And so the private lenders do not do the due diligence they ought to do.

Second, you get driven, almost, by the size of these programs to become very intrusive, very detailed in what you want, and when you do that you are not talking economics, you are talking about the politics of a country. It would be as though the IMF came to the United States and told us, you know, you have problems with social security and medicare, and here is the way you should fix them, without realizing that these issues are very delicate politics in this country. They are not primarily economics.

The third problem is this gigantic honey pot that sits there and can be dipped into.

So those are my points of analysis, and now let me tell you what I think ought to be done. First of all, Mr. Chairman, as you know, I have said for quite a long time, and in a lengthy address to the American Economics Association about 5 or 6 years ago, but also more recently, that it seems to me it is time to close the books on the IMF and go about its functions another way.

Last year I said that and the Congress proceeded to appropriate, or not appropriate, but to provide funds of about \$18 billion and with contributions from other countries totaled some \$80 billion of additional money for the IMF. So I come to you today and say, all right, I recognize I may not get my way, and if I do not, here are my suggestions for what should be done.

First of all, tighten the charter. I was interested, and welcomed the statement by Secretary Summers that the IMF should return to its core function, namely, dealing with critical problems in exchange rate and balance of payments problems in countries around the world. That is what it started out to be, and that is its function, and it seems to me if that is what you want, the charter should say so.

Then you have a limited purpose organization. The money is there, and it is for this purpose. It is not for any purpose that anybody wants to use it for. It is just for this purpose.

That is the way you go about appropriations, as I can vividly recall. The money was provided to me in my various cabinet posts for certain purposes, and I could not decide, well, this money is

appropriated, when I was Secretary of Labor, for manpower training programs, but I guess I will use it for something else. You cannot do that. You have got to use it for what it is prescribed for.

So tighten the charter, and I think the focus should be on what Secretary Summers called core function.

I do think there is a need for an international economic organization with some stature that plays a convener role. That is, when there is a problem, it is important to have some organization that can convene the parties, lenders and borrowers, bring them together. An individual bank usually cannot do it. An individual country has a hard time. So an international organization that can be a convener is useful, and I think it is probably best if it does not have much money.

So that leads me to my second recommendation, that the amount of money in the fund be drastically reduced. Now, obviously, if that happens there has to be a transition. You cannot just pull the plug on existing programs and commitments that have been made. They have to be carried forward. But if the object is clear, the amount of money in the fund can be brought way down, and you take away the honey pot, and you take away a lot of the bail-out problems by doing that, and I do not think that you would miss it.

Third, insist on transparency. Now, there has been a lot of talk about that, and no doubt some progress on it, because transparency is the counterpart of accountability, and that should be on the IMF's internal operations, and it should also be with respect to the individual country programs.

Sometimes the IMF may have a problem with a country that does not want transparency. It seems to me the IMF should insist on transparency, and if the country balks, well then, that is their choice, but IMF is then not going to be there. So we need to be able to know what is going on.

Fourth, I think the interest rates on loans should be raised up to the market, or close to the market so that it is not a gift. It is a help to a country in making a transition, and so the interest rate policy needs to be revised.

Obviously sovereign countries have to decide for themselves, but I think it is increasingly apparent that countries should be willing to have financial institutions from outside their own country operating in a country. It helps. It helps with transparency, it helps on diversification, which is very important for small countries, and it helps by virtue of competition in the financial realm, so I think that would be a key.

I am not going to belabor the issue of exchange rates. It is a big, complicated subject, but it is clear that it is a very, very important issue, and I do think that for any country, a stable and strong currency is very, very important, and the way in which you achieve that is fundamentally by having a strong, stable country, an economy to base it on. There is lots more to be said about that. I just do not want to omit it.

Then I think it is very important to really examine the analysis of what is taking place, so that we are clear. I do not agree with Secretary Summers' analysis of what happened. I think the chairman is closer to the mark in his statement that a lot of damage was done. The IMF's prescriptions in Asia for more austerity were misguided, and they had to change them. It got off to a bad start. There are a lot of other examples.

I think in the Asia situation it was not so much about hot money and the new information age, which is very, very important, but the mistakes that were made were classic mistakes. That is, too much debt in relation to equity. Borrow short, lend long, and into illiquid assets. Borrow with hard currency, lend in a softly pegged currency. Put all those things together, and you have got the ingredients for a crisis. It does not have anything to do with the new economy. It has to do with old problems.

I think it is ridiculous when people say Russia caught Asian flu. The things that Russia did internally created the crisis in Russia, not Asian flu, so I think it is important to get the analysis right.

Finally, we have to keep reminding ourselves of the importance of sovereign responsibilities. The responsibility of a country to run its economy in a way that is healthy, noninflationary, and open. And looking at the world from the standpoint of the United States, the world looking at the United States, there is nothing that anybody can do that comes anywhere near the importance of a noninflationary, expanding, open United States economy. And if you put that alongside a European one and a Japanese one, fundamentally the problems will work themselves through, so these sovereign responsibilities are very, very important to this country and elsewhere.

Thank you, Mr. Chairman. I hope I have not gone too far over my time.

The Chairman: No, you certainly have not.

Mrs. Shultz, your husband has a nodding acquaintance with a lot of folks in this city. He talks and we nod. [Laughter.]

Mrs. Shultz: That is what I hear.

The Chairman: And I felt myself nodding a lot in your remarks, sir. It is good to have you with us.

I take it that you do not think it unreasonable to insist that the IMF and the multilateral banks which the U.S. funds rather generously, as you pointed out, to give the General Accounting Office access to their books to audit and monitor their operations. Is that a reasonable request?

Mr. Shultz: Yes. You would have to negotiate that, because these are international organizations, and other countries would want to have their equivalent GAO's also know. But anyway, I think in the interests of transparency there should be access.

Senator Biden: You cannot mandate.

Mr. Shultz: You cannot mandate, but you can say, this is what we want, this is what we intend, and this is what we are going to insist on.

The Chairman: Do the IMF and the various development banks typically make loans at interest rates which are actually, in fact, below prevailing market interest rates? If the answer to that is yes, roughly what percentage of their loans would you estimate should be at market loan rates?

Mr. Shultz: The answer is clearly yes, and of course you have to make a big distinction between the IMF and the World Bank and the Asian Bank and so on. I think in the case of the IMF the interest rate should be somewhere near market rates, recognizing that when there is a time of crisis, a reason why a country may come to the IMF is that there is no interest rate at which they could get private money, so that there has to be some reason there.

But the IMF rates are much too low in my opinion. What you are trying to do is provide some money that will tide a country's liquidity problem over until things right themselves, so I think they should pay a reasonable rate for that, and that will cause them, among other things, to want to pay the loan off.

The Chairman: Right. One final question. Let me go back to May 5 of 1998, when you, at a hearing of the Joint Economic Committee, testified to this extent. Quote, I think, gentlemen, that through the IMF loans to Russia we have in effect supported atrocities in Chechnya, and I do not know why we should want to do that. Obviously, you still feel that way about it.

Mr. Shultz: I do not think there is the slightest doubt that when you support the general budget of Russia you are supporting, in effect, the things the Government does, and the war in Chechnya is one of the most brutal exercises we have seen around the world, and it is quite costly, so it is eating into the general budget of the Russian Government, which has a hard time anyway collecting taxes, so it has got to be significant.

The Chairman: Should we cut off the loans to Russia?

Mr. Shultz: Absolutely.

The Chairman: Well, if I ask another question I will run over.

Senator Biden: Go ahead.

Mr. Shultz: Well, I think our diplomacy, Mr. Chairman -- we are a little off the point here. I think our diplomacy toward Russia is very, very important, and we should have a vigorous interaction with Russia, but sort of paying for that by IMF loans or some other kinds of loans is the wrong way to think about it.

We should think about it more in terms of what are our interests, and rely on them to represent their interests, and exactly where Russia is going to go is hard to say. They are going to write their own history. We cannot write it for them.

The Chairman: Senator Biden.

Senator Biden: There is only three of us. Why don't you follow up the last question.

The Chairman: I followed up.

Senator Biden: Okay. Mr. Secretary, thank you for being here. I am reminded, listening to you, how of all the witnesses that have been before this committee over the years, I think you present your case, whatever that case is, as cogently and coherently as anyone here. I mean, I do not know how you could have made your case better and straighter than you did by the way you laid it out. It is always understandable.

I would like to -- and since you are not in the Government I will not give you written questions and burden you with all the things you have got to do, but at some point I am sure you are going to be back here.

I would like to expand on your concern and criticism of the moral hazard involved in the current role of the IMF and other international institutions, raising expectations that you can -- not unlike what we did here when we bailed out the savings and loans and saved a lot of people who were not the little people. We saved a lot of the big people. What is that old adage? I am going to get it wrong. If you are big enough, we cannot let you fail. That is what we do domestically, and we have done that internationally as well.

Mr. Shultz: I have seen some issues in our own domestic economy that I think are very instructive to look at in that regard, because there is always a theory, here is the problem, and if we do not intervene goodness knows what is going to happen, and so I have been through quite a few of those things, and I would be glad to talk about them if you want.

Senator Biden: Well, I would like to pursue that at some point, but I would like to get specific in the short time we have. Is there a distinction between the international lending institutions, particularly the IMF, and what generic condition we should lend upon? For example, Russia. Russia is not reforming itself. We all agree with that. Additional loans to Russia are not of much consequence in terms of getting them to move toward democratic institutions, setting up internal institutions that will allow people to rely upon investing there from tax collection to a uniform commercial code, or some version of it.

Is there a distinction between when you are loaning money to a country, an international institution is loaning money to a country, and an international institution inviting a country to participate in a trade relationship? For example, WTO. The Chinese obviously are -- I should not say obviously -- I believe are even more antidemocratic in their actions and institutions than Russia is, yet there are a lot of people calling for them to be admitted to the World Trade Organization, assuming the final T's are crossed and the I's are dotted in the international agreement.

What is your position on, for example, the WTO? Should China be admitted to the WTO?

Mr. Shultz: Yes, I think so, without a doubt.

Senator Biden: Now, I am truly not trying to be argumentative. What are the distinctions between, obviously, allowing a totalitarian Government to engage in and participate from and gain benefit from the regime of a World Trade Organization, and therefore allow them in a more indirect way to be able to continue their suppressions in Tibet because of the economic power that they gain

as a consequence of membership there, which is one of the arguments the Senator makes consistently about whether they should be in WTO or whether we should lend them money.

Is there a distinction between facilitating them, a country having resources which are fungible to engage in Chechnya, or suppression in Tibet, or the arrest of press persons or dissidents, whether it is done indirectly, through allowing them access to the World Trade Organization, or it is done directly in terms of a loan? Is there a philosophic and/or practical difference?

Mr. Shultz: Yes, I think so.

Senator Biden: Could you tell me what it is?

Mr. Shultz: I would not support IMF loans to China, or World Bank loans to China.

Senator Biden: You really would not?

Mr. Shultz: I would not.

Senator Biden: You would not?

Mr. Shultz: No. Trade and investment, which is done by private individuals, is a different matter entirely. China is a big, important trading partner, but I do not think the case for the WTO rests primarily on economic grounds, and I know there are lots of American companies that will be pushing for it because of the business that they do, and that is understandable.

I do not think that is the main argument for it. To me, the main argument is to draw China as much as we possibly can into the web of rules that characterizes the way the world works in trade, and I have been going there for quite a few years periodically, and it is the case that the change in China over the last 20 years is stunning. It is a totally different country.

It is a repressive regime, and they are doing some things that are terrible, and I think the most recent blast at Taiwan is something we should react to fast. Be clear.

But the more they are drawn into the world of trade, the more people in China tend to know what is going on around the world, be involved with other parts of the world, then the more you see a change in the social and political fabric of China. Actually, there are elections in most local communities in China today, who is going to run their locality. Of course, that is very different. China may be something of a revolution from the bottom rather than from the top.

So I cannot predict what is going to happen in China, but a lot has happened. My guess is that there will be some Tiananmen Square-like things as you go along in this process of the erosion of central authority. It is in a sense sort of decentralizing now.

So I would be in favor of Chinese entry into the WTO for these kinds of reasons.

Senator Biden: I happen to agree with you. I would suggest, and I am not sure where it takes me on IMF, but I suggest that if you walk through the streets of Moscow or Leningrad in the last 5 years they are radically different. As bad as things are in Russia, they are a hell of a lot better off, in relative terms, than they were 10 years ago, 15 years ago.

But I appreciate it. Maybe we will get another shot later. Thank you very much.

The Chairman: Mr. Hagel.

Senator Hagel: Mr. Chairman, thank you.

Mr. Secretary, welcome. You are one of the preeminent public servants of our time, and we are grateful for your insight. You also represent a particularly unique perspective on all of this, based on your public service assignments that you have had, your private sector jobs, and you blend national security interests with economic interests and all that is in between in a way that very few individuals who have had real life experience with.

And with that, you mentioned in your list of things that we should do, your thoughts about, frankly we need some kind of an international economic organization or institution. Could you frame that up a little bit? Would it be a scaled- down IMF? You went through a number of things, less money and so on and so on, and transparency, but give us a little sense of what you mean by some kind of an economic organization.

Mr. Shultz: Let's call it an IMF without any money. [Laughter.]

Mr. Shultz: That is, here you have a problem in a country, say Korea, in this recent thing, and there were a lot of people that loaned them money, and there were a lot of people to whom it was loaned, and what in the end happened was, these groups were caused to get together and develop a structure of how they were going to unwind this problem, to work it out. This is typical of what happens in workouts in the private banking field, when their loans would go sour. Loan officers have to get together with people, and they have to try to work it through.

So it is often difficult to convene these parties, and it is not easy for a country to do it, because they are regarded as an interested party, and it is not easy for a private organization to do it, a bank, say, because they have that same attribute, and so I think it can be quite useful for an international organization to act as the convener, and hire a hall, and invite people in, and kind of moderate a discussion of how you borrowers and you lenders are going to work out your problem, and they will have to work it through.

And of course, if they have to work it through without somebody giving them a lot of money to do it with, then the pain is more apparent, and the lesson of doing your due diligence is more apparent, but nevertheless, there is a convener function that can be useful, I think.

Senator Hagel: You noted that the President of the United States, the current occupant of the White House, his role and leadership and perspective and policy on this is one that you do not find yourself in agreement with and, of course, that issue will be resolved in November.

Mr. Shultz: Well, I have read to you what he said he believes as of 2 months ago, and I was going to ask you if you agree with that. This is just a way of saying, do you agree with this description of Russia? Do you agree with this description of what is going on in Chechnya? I sure don't.

Senator Hagel: Well, I do not think many of us do, but the point is, we are going to elect a new President. That new President will have a new policy. Would you agree, or would it be your suggestion that the new President impound maybe a presidential commission to evaluate all of the international financial organizations that the United States is involved in, are they relevant to the challenges of the 21st Century, what is their role in the security stability of the world, all questions that we have deferred not just in this presidency but in the last 20 years.

And I do not, by the way, think there is any point in belittling anybody for it, but I think we do need to reach out into the future here and figure out where we are going. Could you conceptualize any of that, or would it be even important, or would it be relevant to try to understand this issue and find some solutions?

Mr. Shultz: I think it would be extremely important, and I think you are hearing some developing material here. I know there is a commission authorized by the Congress to examine the operation of these institutions and to make some recommendations, and as the chairman noted, as I understand it it is somewhere near ready to deliver its views, lots of input, and it seems to me a new

administration always has a fresh start, a fresh chance, and I would hope a new Secretary of the Treasury, whoever that is, would really make a big effort in this regard, because I think it is way overdue.

There are some other things that I think organizationally ought to be done, of comparable scope, but certainly what you suggest I think would be very important to do.

Senator Hagel: Thank you. Mr. Chairman, may I ask just one more additional question --

The Chairman: Certainly.

Senator Hagel: -- because I think this is -- in light of what we are going to have to deal with this year, certainly with the new President next year, the issue of the highly indebted poor countries, the current administration's policy, and what we are dealing with here, and the chairman is going to be marking up some legislation I think next month, would you give us your sense of that policy currently? Are we going in the right direction?

Mr. Shultz: I think that bad debts need to be recognized as such. That is, people need to live in reality, and there have been a lot of loans made to desperately poor countries that are never going to get repaid. That is a reality, and a lot of them have been extended by the IMF and by the World Bank, and it seems to me that these organizations should realize that reality and write them off, just as, if you are running a private bank and you make a loan, the loan is totally sour, what do you do? You cannot come to the Congress and say, give me some money to cancel that debt. You just have to swallow it, and you say to yourself, I have got to be more careful the next time.

The World Bank has this ethic that it never makes a bad loan. They say that. I think it is ridiculous. If they do not make any bad loans, they are not doing their job, because they are in a sense supposed to be on the edge of the envelope, and if you are anywhere near the edge of the envelope in risk, you are bound to make some loans that do not work, so you should not just keep them on the books forever and then try to get them paid off by establishing a trust fund that people contribute to, and you put the bad loans in there, and then the bad loans are gotten rid of that way, and you continue to say you never made a bad loan. I think they should write them off.

Senator Hagel: Do you think the current administration policy is the correct course on these bad loans, as we refer to them?

Mr. Shultz: I do not consider myself well-enough informed in precise detail, but I know, having been in these positions, that bad loans are a problem, because they are sort of there, they are a running sore, they are not going to get repaid, and yet they overhang the situation, and make it hard to grapple with the reality that is there and try to get that economy moving forward. It is hard for people to adopt the kind of policies they would like to adopt.

So I think bad loans are bad loans. I think we had policies -- let me say something -- I am not criticizing this administration particularly, but in the 1980's there were a lot of bad loans out to Latin American countries, and in response to that, it started with Mexico, but Brazil, Argentina and so on were involved, through the IMF with the Fed and the Treasury loans were made and conditions put, largely saying to people you need to have austerity so you do not have a lot of imports. You need to lower your exchange rates so you can sell exports, generate foreign exchange to be able to pay off the loans.

I thought at the time, but in retrospect certainly it was bad advice. It helped the banks. They were very overexposed, and they had 4 or 5 years -- people kicked the can down the road, people had 4 or 5 years to get their balance sheets in order, and then finally, in what became called Brady bonds, the reality was recognized and the market decided whether it wanted to pay 10 cents on the dollar, 20 cents, 80 cents, or whatever, the market prices, and then Latin Americans started to move forward.

But in the meantime, people I think characterized that as a lost decade in Latin America, and I do not think it needed to be so, if people had just faced the reality that these loans are no good, and you have got to go on from there, and as far as large bank exposures in the U.S., making them vulnerable and making us nervous, well, that is a problem for us to face with those banks, not to in a sense have the people of Latin America lose a decade, as they did.

It is interesting, incidentally, that Chile got into trouble, too, in that period, and nobody would help them. IMF would not help them, we would not help them, because Pinochet was a pariah, although they had -- the Chicago Boy's economy was there. So they had to solve their own problems, which they did. It was hard, but by the mid- 1980's they had the only healthy economy in Latin America, whereas all the economies that we helped were miserable. There has got to be some kind of a message there.

Senator Hagel: Thank you. Mr. Chairman, thank you.

The Chairman: Mr. Secretary, it is so good to have you sitting there again, and to see you again, and to meet you, ma'am, and I hope that we can dream up another reason to have you cross the country, because it is always a joy to hear you.

Mr. Shultz: Thank you, Mr. Chairman.

The Chairman: Thank you for putting up with us today and, as you know, the record will be kept open so the Senators may file written questions, and when you have time, if you would respond to those I would appreciate it.

Mr. Shultz: Thank you, Mr. Chairman.

The Chairman: If there be no further business to come before the committee, we stand in recess.